

**SALT LAKE NEIGHBORHOOD HOUSING
SERVICES, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2005 and 2004

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

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► Lake, Hill & Myers

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CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

October 20, 2005

To the Board of Directors of
Salt Lake Neighborhood Housing Services, Inc.

We have audited the accompanying statement of financial position of Salt Lake Neighborhood Housing Services, Inc. (a nonprofit organization) as of June 30, 2005 and 2004 and the related statements of activities and change in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salt Lake Neighborhood Housing Services, Inc. as of June 30, 2005 and 2004, and the change in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2005 on our consideration of Salt Lake Neighborhood Housing Services, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining statements as of and for the year ended June 30, 2005 on pages 22 and 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 24 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lake, Hill & Myers

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	June 30,	
	<u>2005</u>	<u>2004</u>
Cash	\$ 252,311	\$ 1,274,011
Restricted cash	1,800,971	2,793,996
Grants receivable	34,084	64,600
Other receivables	1,161	1,295
Prepaid expense	15,623	12,808
Deposits	70,926	-
Mortgage loans receivable, less loss reserve of \$171,102 and \$172,898	3,022,408	3,395,538
Property held for development, rehabilitation and sale, less allowance for loss of \$184,605 and \$350,581	2,807,162	1,811,278
Investment in and advances to related real estate limited liability company	965,000	815,000
Property and equipment, net	<u>271,165</u>	<u>309,994</u>
	<u>\$9,240,811</u>	<u>\$10,478,520</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 2,364	\$ 8,392
Accrued expenses	204,765	212,775
Accrued master lease obligation	300,000	-
Escrow deposits	41,601	39,964
Notes payable - rehabilitation and development	2,130,733	1,904,520
Long-term debt - revolving loans	<u>1,910,188</u>	<u>3,623,338</u>
Total liabilities	4,589,651	5,788,989
Net assets:		
Unrestricted	1,371,587	1,534,172
Temporarily restricted	62,000	93,583
Permanently restricted	<u>3,217,573</u>	<u>3,061,776</u>
Total net assets	<u>4,651,160</u>	<u>4,689,531</u>
	<u>\$9,240,811</u>	<u>\$10,478,520</u>

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Unrestricted net assets:		
Public support and revenue:		
Contributions:		
Private donors	\$ 9,979	\$ 10,950
Foundations	72,100	55,500
Corporations	152,150	129,750
Special events	34,491	27,215
Direct cost of benefit to donors	(11,510)	(12,074)
Restrictions satisfied	<u>56,108</u>	<u>56,571</u>
	<u>313,318</u>	<u>267,912</u>
Public grants and contracts:		
Restrictions satisfied	<u>301,640</u>	<u>260,820</u>
	<u>301,640</u>	<u>260,820</u>
Program revenue:		
Sale of property held	333,900	730,122
Development fee	-	60,000
Loan service fees	32,197	33,805
Miscellaneous	28,083	29,702
Interest income	<u>230,029</u>	<u>227,215</u>
	<u>624,209</u>	<u>1,080,844</u>
Total unrestricted public support and revenue	<u>1,239,167</u>	<u>1,609,576</u>
Expenses:		
Program services:		
Revolving loan servicing	426,122	411,496
Youth Works projects	155,314	101,257
Home and community improvements	<u>567,280</u>	<u>765,110</u>
	<u>1,148,716</u>	<u>1,277,863</u>
Supporting services:		
Management and general	228,140	274,593
Fundraising	<u>24,896</u>	<u>36,444</u>
	<u>253,036</u>	<u>311,037</u>
Total expenses	<u>1,401,752</u>	<u>1,588,900</u>
Change in unrestricted net assets	(162,585)	20,676

(continued)

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

(continued)

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Temporarily restricted net assets:		
Public support and revenue:		
Private donors	\$ 555	\$ 483
United Way	995	3,395
Foundations	21,665	15,000
Corporations	30,893	67,693
Restrictions satisfied	<u>(56,108)</u>	<u>(56,571)</u>
	<u>(2,000)</u>	<u>30,000</u>
Public grants and contracts:		
Juvenile Justice	18,000	-
Weed and Seed Grant	10,000	-
Youth Corrections	5,000	-
Salt Lake County Substance Abuse	69,013	-
Community Development Block Grant	65,200	65,200
Neighborhood Reinvestment Corporation	104,844	222,466
Restrictions satisfied	<u>(301,640)</u>	<u>(224,083)</u>
	<u>(29,583)</u>	<u>63,583</u>
Total public support and revenue	<u>(31,583)</u>	<u>93,583</u>
Change in temporarily restricted net assets	<u>(31,583)</u>	<u>93,583</u>
Permanently restricted net assets:		
Public grants and contracts:		
Neighborhood Reinvestment Corporation	125,000	98,750
Restrictions satisfied	<u>-</u>	<u>(36,737)</u>
	<u>125,000</u>	<u>62,013</u>
Program revenue:		
Interest income	<u>30,797</u>	<u>38,942</u>
	<u>30,797</u>	<u>38,942</u>
Total public support and revenue	<u>155,797</u>	<u>100,955</u>
Change in permanently restricted net assets	<u>155,797</u>	<u>100,955</u>
Change in net assets	(38,371)	215,214
Net assets, beginning of year	<u>4,689,531</u>	<u>4,474,317</u>
Net assets, end of year	<u>\$4,651,160</u>	<u>\$4,689,531</u>

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	Program Services Expenses			Supporting Services Expenses				
	Revolving loans	Youth Works projects	Home and community improvements	Total program services	Management and general	Fund- raising	Total support services	Total expenses
Salaries	\$ 189,815	\$ 94,339	\$ 17,138	\$ 301,292	\$ 121,138	\$ 13,376	\$ 134,514	\$ 435,806
Benefits	26,862	10,830	2,426	40,118	18,447	1,893	20,340	60,458
Payroll taxes	21,985	8,865	1,985	32,835	14,032	1,549	15,581	48,416
Total salary and related expenses	238,662	114,034	21,549	374,245	153,617	16,818	170,435	544,680
Professional fees	12,563	4,662	1,044	18,269	8,101	815	8,916	27,185
Supplies	5,335	10,122	482	15,939	3,628	376	4,004	19,943
Communications	4,079	2,274	988	7,341	5,841	877	6,718	14,059
Occupancy	2,157	870	195	3,222	1,378	152	1,530	4,752
Repairs and maintenance	5,441	3,064	9,378	17,883	3,933	416	4,349	22,232
Travel	681	274	61	1,016	1,921	48	1,969	2,985
Conferences and marketing	726	332	66	1,124	13,868	1,551	15,419	16,543
Insurance	14,601	5,888	1,318	21,807	9,319	1,029	10,348	32,155
Interest	111,792	-	27,248	139,040	40	-	40	139,080
Training	6,537	2,389	535	9,461	3,781	418	4,199	13,660
Miscellaneous	4,921	4,295	1,100	10,316	11,461	1,153	12,614	22,930
Cost of property sold	-	-	196,473	196,473	-	-	-	196,473
Property tax expense	-	-	5,251	5,251	-	-	-	5,251
Master lease loss	-	-	300,000	300,000	-	-	-	300,000
Depreciation	17,632	7,110	1,592	26,334	11,252	1,243	12,495	38,829
Loan closing costs	995	-	-	995	-	-	-	995
Total Expense	\$ 426,122	\$ 155,314	\$ 567,280	\$ 1,148,716	\$ 228,140	\$ 24,896	\$ 253,036	\$ 1,401,752

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004

	Program Services Expenses			Supporting Services Expenses				
	Revolving loans	Youth Works projects	Home and community improvements	Total program services	Management and general	Fund- raising	Total support services	Total expenses
Salaries	\$ 141,852	\$ 53,288	\$ 9,783	\$ 204,923	\$ 154,895	\$ 19,566	\$ 174,461	\$ 379,384
Benefits	17,673	6,746	1,219	25,638	19,300	2,438	21,738	47,376
Payroll taxes	18,791	5,647	1,296	25,734	20,517	2,592	23,109	48,843
Total salary and related expenses	178,316	65,681	12,298	256,295	194,712	24,596	219,308	475,603
Professional fees	15,155	8,436	1,045	24,636	16,548	2,090	18,638	43,274
Supplies	3,529	1,234	243	5,006	3,853	487	4,340	9,346
Communications	5,337	700	368	6,405	5,827	736	6,563	12,968
Occupancy	2,100	209	145	2,454	2,292	290	2,582	5,036
Repairs and maintenance	13,229	768	39,465	53,462	14,445	1,825	16,270	69,732
Travel	2,197	1,911	143	4,251	430	96	526	4,777
Conferences and marketing	4,370	-	301	4,671	4,771	602	5,373	10,044
Change in loss reserve	(37,574)	-	-	(37,574)	-	-	-	(37,574)
Insurance	8,552	5,851	611	15,014	9,571	1,629	11,200	26,214
Interest	187,733	-	23,176	210,909	-	-	-	210,909
Training	3,802	340	1,730	5,872	4,254	724	4,978	10,850
Miscellaneous	7,285	7,167	2,369	16,821	9,647	1,219	10,866	27,687
Cost of property sold	-	-	662,291	662,291	-	-	-	662,291
Property tax expense	-	-	12,324	12,324	-	-	-	12,324
Depreciation	7,885	8,960	8,601	25,446	8,243	2,150	10,393	35,839
Loan closing costs	9,580	-	-	9,580	-	-	-	9,580
Total Expense	\$ 411,496	\$ 101,257	\$ 765,110	\$ 1,277,863	\$ 274,593	\$ 36,444	\$ 311,037	\$ 1,588,900

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

STATEMENT OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from contributions, government, contracts, and customers	\$ 1,133,205	\$ 1,499,442
Interest received	260,826	266,157
Cash paid to vendors and employees	(1,090,254)	(1,444,959)
Interest paid	<u>(157,294)</u>	<u>(220,299)</u>
Net cash provided by operating activities	<u>146,483</u>	<u>100,341</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	(29,914)
(Increase) decrease in restricted cash	993,025	(296,420)
(Increase) decrease in property held	(745,941)	571,788
Increase in investment in and advances to related real estate limited liability company	(150,000)	-
Mortgage loans receivable made	(537,289)	(737,946)
Mortgage loans receivable payments received	828,248	759,369
Increase in deposits	<u>(70,926)</u>	<u>-</u>
Net cash provided by investing activities	<u>317,117</u>	<u>266,877</u>
Cash flows from financing activities:		
Increase on notes payable - rehabilitation, net	226,213	90,707
Increase in escrow deposits	1,637	540
Decrease in long-term debt - revolving loans, net	<u>(1,713,150)</u>	<u>(317,663)</u>
Net cash used in financing activities	<u>(1,485,300)</u>	<u>(226,416)</u>
Net increase (decrease) in cash	(1,021,700)	140,802
Cash at beginning of year	<u>1,274,011</u>	<u>1,133,209</u>
Cash at end of year	<u>\$ 252,311</u>	<u>\$ 1,274,011</u>

(continued)

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

STATEMENT OF CASH FLOWS

(continued)

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Reconciliation of increase (decrease) in net assets to net cash provided by operating activities:		
Increase (decrease) in net assets	\$ (38,371)	\$ 215,214
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	38,829	35,839
Change in loss reserve	(1,796)	(37,574)
Change in property held reserve	(165,976)	(38,722)
Change in assets and liabilities:		
(Increase) decrease in grants receivable	30,516	(48,825)
Decrease in other receivables	134	10,310
Increase in prepaid expenses	(2,815)	(3,808)
Decrease in accounts payable	(6,028)	(14,028)
Decrease in accrued expenses	(8,010)	(18,065)
Increase in accrued master lease obligation	<u>300,000</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 146,483</u>	<u>\$ 100,341</u>

Schedule of non-cash investing and financing activities:

During the years ended June 30, 2005 and 2004, the Organization transferred loans receivable totaling \$83,967 and \$480,477 to property held for sale, representing property acquired through foreclosure.

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

Salt Lake Neighborhood Housing Services, Inc. (the Organization) (a non-profit organization) was organized under the laws of the State of Utah to assist in residential revitalization and promotion of home ownership in target areas in Salt Lake City, Utah. The Organization's current primary target areas include the Jackson, Onequah, and Guadalupe neighborhoods, also known as the Fair Park area. The following programs are currently in operation:

Revolving Loan program provides financing for home improvement and construction loans for persons who are unable to obtain financing from traditional sources. These individuals are usually considered too "high-risk" by financial institutions. The program also provides first mortgages for qualifying first-time homebuyers.

YouthWorks project provides home construction and improvements using troubled youth from target areas. Participants assist loan clients with construction. Each year, participants build a home to learn job skills for future employment. In addition, the project serves young women in transition with a focus on pursuing entrepreneurial projects that will provide "at-risk" females with a paid employment opportunity.

Home and Community Improvements provide a variety of unique services to target areas. These services include painting senior citizens' homes by teams from local businesses and residential lot acquisition on which homes are rehabilitated or newly constructed and then sold to low and moderate income individuals.

Financial Statement Presentation

The accompanying financial statements of the Organization have been prepared using the accrual method of accounting.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Under Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements for Not-for-Profit Organizations," net assets of the Organization are reported according to the following three classes of net assets:

Unrestricted - accounts for unrestricted assets (net of related liabilities) available for support of the organization's operations. Assets designated by the Board of Directors for a specific purpose also are accounted for in this fund.

Temporarily Restricted - accounts for resources currently available for use, but expendable only for purposes specified by the donor.

Permanently Restricted - accounts for gifts requiring in perpetuity that the principal be invested and the income only be used.

Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash on hand and highly liquid investments with original maturities of three months or less. Restricted cash is not considered a cash equivalent.

Contributions

Contributions are recorded as revenue when cash is received or the Organization receives an unconditional promise to give from the donor. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Mortgage Loans Receivable and Loan Loss Reserve

Mortgage loans receivable are stated at the unpaid principal amount reduced by the loan loss reserve and deferred loan origination fees. Interest on the loans is calculated using the simple interest method on daily balances of the principal amount outstanding. Interest rates range from zero percent to eight percent with monthly payment terms ranging from one to thirty years. The loans are secured by real property.

The loan loss reserve is maintained at a level considered adequate to provide for estimated future credit losses. The reserve is increased by provisions charged to operating expense and reduced by net charge-offs.

Property Held For Development, Rehabilitation and Sale

Property held for development, rehabilitation and sale represents property purchased in target areas for development and rehabilitation. Once rehabilitation is complete, these properties are sold to third parties.

Management reviews property held for development, rehabilitation and sale to determine estimated net realizable values. Estimated amounts in excess of net realizable values are reduced to their net realizable values and reflected in the allowance for loss.

Property and Equipment

Property and equipment are recorded at acquisition cost or, where donated, at estimated market value at the date of the donation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, which range from 3 to 15 years. Expenditures for repairs and maintenance are charged to expense as incurred.

Donated Services

Amounts for donated services are reflected in the financial statements if the services create or enhance nonfinancial assets. The Organization pays for most services requiring specific expertise. No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Nonprofit Status

The Organization was organized as a nonprofit corporation in accordance with the laws of the State of Utah and is exempt from federal income taxation under provisions of Section 501(c)(3) of the Internal Revenue Code.

Functional Expenses

The Organization allocates its expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program or supporting service are directly classified to that program or service. Other expenses that are common to several functions are allocated on a reasonable and systematic basis.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Long-lived Assets

The Company reviews long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, as measured by a comparison of estimated future cash flows (undiscounted and without interest charges) to the carrying value of the asset. Assets held for sale are written down to their fair value, less cost to sell.

NOTE 2 - CASH BALANCES:

The Organization's cash is held in federally insured bank accounts. The cash balances in four banks exceed the federally insured limit of \$100,000 by a total of approximately \$900,000 and \$3,700,000 at June 30, 2005 and 2004. This is considered a concentration of credit risk. Management does not believe the credit risk associated with this concentration is significant.

NOTE 3 - RESTRICTED CASH:

At June 30, 2005 and 2004, restricted cash included \$254,668 and \$379,196 held as a reserve for loans sold to Neighborhood Housing Services of America (NHSa) as more fully described in Note 4. It also includes cash related to the Community Development Financial Institutions loan, Community Development Block Grants, Home Program Grants, and Neighborhood Reinvestment Corporation Grants which must be used for lending, development and rehabilitation activities.

Restricted cash consists of the following:

	June 30,	
	2005	2004
Community Development Financial Institutions	\$ 27,280	\$1,012,476
Community Development Block Grant	825,475	649,448
Neighborhood Reinvestment Corporation	500,038	650,073
Neighborhood Housing Services of America	254,668	379,196
Home Program	<u>193,510</u>	<u>102,803</u>
	<u>\$1,800,971</u>	<u>\$2,793,996</u>

NOTE 4 - MORTGAGE LOANS RECEIVABLE:

Mortgage loans receivable were funded through the following sources:

	June 30,	
	2005	2004
Organization assets	\$ 498,855	\$ 269,904
Community Development Block Grant	713,364	857,262
Neighborhood Reinvestment Corporation	98,383	68,787
Community Development Financial Institutions	1,322,720	255,232
Revolving loans	<u>560,188</u>	<u>2,117,251</u>
	3,193,510	3,568,436
Less loan loss reserve	<u>(171,102)</u>	<u>(172,898)</u>
	<u>\$3,022,408</u>	<u>\$3,395,538</u>

During the year ended June 30, 2000, the Organization sold revolving mortgage loans totaling \$2,762,000 to NHSa. The Organization continues to provide mortgage loan services to NHSa for these loans. As part of this sale, the Organization is required to replace or repurchase loans which become more than 90 days delinquent. The Organization is required to secure this obligation by maintaining additional mortgages and/or cash equal to twenty percent of the outstanding principal amount of the mortgages held by NHSa. The balance of these sold mortgage loans total \$1,273,338 and \$1,895,981 at June 30, 2005 and 2004. At June 30, 2005 and 2004, the Organization has classified approximately \$255,000 and \$379,000 as restricted cash to meet this requirement. However, the Organization has the option of using existing mortgage loans to meet this requirement. During the years ended June 30, 2005 and 2004, the Organization was not required to replace or repurchase any loans.

During the year ended June 30, 2005, the Organization sold revolving mortgage loans totaling approximately \$710,000 to NHSA. The Organization continues to provide mortgage loan services to NHSA for these loans. As part of this sale, the Organization is required to replace or repurchase loans which become more than 90 days delinquent. The Organization is required to secure this obligation by making a cash deposit with NHSA equal to ten percent of the outstanding principal amount of the mortgages held by NHSA. The balance of these sold mortgage loans total \$708,407 at June 30, 2005. At June 30, 2005, NHSA held on deposit \$70,926 of the Organization's funds as security. In the case of delinquent loans, the Organization has the option of using existing mortgage loans or their deposit to meet the requirement to replace or repurchase loans. During the year ended June 30, 2005, the Organization was not required to replace or repurchase any loans.

The Organization provides mortgage assistance primarily to low-to-moderate income individuals. The mortgage loans receivable are considered a concentration of credit risk.

NOTE 5 - PROPERTY HELD FOR DEVELOPMENT, REHABILITATION AND SALE:

Property held for development, rehabilitation and sale consists of the following:

	June 30,	
	2005	2004
Vacant residential lots	\$ 490,992	\$ 886,390
Residential real estate under rehabilitation or development, or held for sale	<u>2,500,775</u>	<u>1,275,469</u>
	2,991,767	2,161,859
Less allowance for loss	<u>(184,605)</u>	<u>(350,581)</u>
	<u>\$2,807,162</u>	<u>\$1,811,278</u>

NOTE 6 - INVESTMENT IN AND ADVANCES TO RELATED REAL ESTATE LIMITED LIABILITY COMPANY:

The Organization owns a .0067 percent managing member interest in a limited liability company that owns a multi-family low-income housing project (the Project) in the Organization's target area. Investment in and advances to related real estate limited liability company is as follows:

	June 30,	
	2005	2004
Loan receivable - interest at 1 percent, payable from available Project cash flow, balance due September 29, 2035, secured by the Project's real property.	\$ 50,000	\$ 50,000
Loan receivable - interest at 1 percent, due August 1, 2035. Payments are due from available project cash flow after payment of any deferred development fee. The loan is secured by the Project's real property.	300,000	300,000

Loan receivable - interest at 1 percent. Payment of principal and accrued interest is due June 1, 2035 or potentially upon the sale or refinancing of the Project. The loan is secured by the Project's real property and an assignment of rents.	465,000	465,000
Capital contributed as the .0067 percent managing member of the Project.	<u>150,000</u>	<u>-</u>
	<u>\$965,000</u>	<u>\$815,000</u>

The Organization has not recorded any interest receivable or interest revenue related to these notes receivable as of June 30, 2005. The Organization will record interest revenue when it is received. The Organization does not expect to receive any payments on these notes during the next fiscal year.

In connection with the Organization's role in the development of the Project, the Organization entered into a master lease agreement relative to the Project's commercial space as more further described in Note 8. The Organization has also made certain commitments and guaranties as more fully described in Note 13.

In connection with the Organization's role in the development of the Project, the Organization is to receive a development fee. During the year ended June 30, 2004, the Organization received \$60,000 as a development fee payment. The \$60,000 payment was recorded as development fee revenue in the accompanying financial statements. The remaining fee of approximately \$985,000 is primarily payable from available project cash flow, and therefore it is uncertain whether the Project will have sufficient cash flow to pay the fee. Accordingly, the Organization has not recorded the unpaid portion of this fee as development fee receivable or revenue as of June 30, 2005 and 2004.

Subsequent to June 30, 2005, the Organization made additional investments in and advances to this related real estate limited liability company totaling approximately \$700,000.

NOTE 7 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 53,158	\$ 53,158
Buildings	315,701	315,701
Building improvements	34,114	34,114
Vehicles	57,583	57,583
Tools	17,100	17,100
Equipment	<u>193,621</u>	<u>193,621</u>
	671,277	671,277
Less accumulated depreciation	<u>(400,112)</u>	<u>(361,283)</u>
	<u>\$ 271,165</u>	<u>\$ 309,994</u>

NOTE 8 - ACCRUED MASTER LEASE OBLIGATION:

Effective September 2005, the Organization and a for-profit developer, acting as co-managing members of the related real estate limited liability company discussed in Note 6, entered into a master retail lease agreement (the Agreement) with the Project. Under the terms of the Agreement, the co-managing members committed to lease 13,000 square feet of retail space at the Project for \$156,000 per year from October 1, 2005 to September 30, 2010. The co-managing members are also responsible for common area maintenance costs and a proportionate share of property taxes. The Project has the unilateral right to extend the term of the lease an additional five years until September 30, 2015 by giving notice to the co-managing members. The Organization expects the Project to exercise this extension provision.

The co-managing members will sub-lease the commercial space to unrelated tenants. At June 30, 2005, the Organization has recorded a liability totaling \$300,000 representing the discounted, estimated future cash flows the Organization expects to pay to the Project, net of sub-lease rental receipts, as a result of entering into the Agreement. This estimate is based on a current occupancy of approximately 50 percent, expected occupancy of 80 percent achieved in June 2006 and maintained thereafter, a three percent annual increase in common area maintenance costs and property taxes, a discount rate of six percent, and an estimated sub-lease rental rate of \$10 per square foot.

NOTE 9 - NOTES PAYABLE - REHABILITATION AND DEVELOPMENT:

Notes payable - rehabilitation and development represent amounts borrowed to develop and/or rehabilitate real estate included in property held for development, rehabilitation and sale. These loans consist of the following:

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
Note payable - Salt Lake City Corporation (SLC), zero interest, principal due when underlying real estate is sold. Secured by real estate included in property held for development, rehabilitation and sale, and cash.	\$ 422,946	\$ 239,520
Note payable - financial institution, interest at 1 percent, interest only payments due annually on June 1 of each year. All principal and accrued interest is due on June 1, 2014, unsecured.	500,000	500,000
Note payable - SLC, interest at 2 percent, principal and interest due January 2005, unsecured. Repaid during the year ended June 30, 2005.	-	200,000
Note payable - Redevelopment Agency of Salt Lake City (SLC RDA), interest at 3 percent, principal and interest are due as certain real estate units are sold, but no later than July 31, 2006. Secured by real estate included in property held for development, rehabilitation and sale.	242,787	-

Note payable - SLC RDA, interest at 8 percent, payable as interest is collected on the \$465,000 loan receivable (Note 6), matures June 1, 2035. Secured by corresponding note receivable (see Note 6).	465,000	465,000
Note payable - financial institution, interest at 3.5 percent, interest only payments required quarterly through April 1, 2008, when the principal and any remaining interest is due, unsecured.	<u>500,000</u>	<u>500,000</u>
	<u>\$2,130,733</u>	<u>\$1,904,520</u>

The note payable and any related accrued interest owed to the SLC RDA on its note payable totaling \$465,000 will only be required to be repaid in an amount equal to the principal and interest the Organization receives from the Project under a corresponding note receivable (Note 6). Accordingly, the Organization has not recorded any accrued interest payable or interest expense in the accompanying financial statements related to this note payable.

NOTE 10 - LONG-TERM DEBT - REVOLVING LOANS:

Long-term debt - revolving loans represent amounts borrowed to make loans to individuals living in target areas. These loans consist of the following:

	<u>2005</u>	<u>June 30, 2004</u>
Notes payable, interest at 6.25 percent, principal and interest payments required as corresponding loans receivable are collected, secured by the loans made with these loan proceeds. Maturing November 2004.	\$ 71,246	\$ 740,326
Notes payable, interest currently at 4.5 percent but variable up to a maximum of 6 percent based on changes in the previous four year average U.S. Treasury rate. Principal and interest payments required as corresponding loans receivable are collected, secured by loans made with these loan proceeds. Matures as corresponding loan receivables mature.	488,942	569,312
Note payable, interest at 2.3 percent with interest due quarterly. Maturing November 2010. (In connection with this loan, the Organization is required to comply with various financial covenants described in the loan agreement. At June 30, 2005, the Organization is in technical default of one of these financial covenants.)	1,350,000	1,350,000
Notes payable, interest from 6.25 to 7.49 percent, principal and interest payments required as corresponding loans receivable are collected, secured by the loans made with these loan proceeds. Repaid during the year ended June 30, 2005.	-	871,199

Notes payable, interest at 6.65 percent, principal and interest payments required as corresponding loans receivable are collected, secured by the loans made with these loan proceeds. Repaid during the year ended June 30, 2005.

-	92,501
<u>\$1,910,188</u>	<u>\$3,623,338</u>

Estimated future maturities of this long-term debt are as follows:

Year ending June 30,

2006	\$ 107,709
2007	41,528
2008	43,436
2009	45,431
2010	47,518
Thereafter	<u>1,624,566</u>
	<u>\$1,910,188</u>

NOTE 11 - NET ASSETS:

Net assets consist of the following:

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
Unrestricted net assets:		
Property and equipment	\$ 271,165	\$ 309,994
Investment in and advances to related real estate limited liability company, net of note payable	500,000	350,000
Undesignated	<u>600,422</u>	<u>874,178</u>
	<u>1,371,587</u>	<u>1,534,172</u>
Temporarily restricted net assets:		
Neighborhood Reinvestment Corporation Grants	34,000	63,583
Grants to new home buyers	<u>28,000</u>	<u>30,000</u>
	<u>62,000</u>	<u>93,583</u>
Permanently restricted net assets:		
Community Development Block Grants	1,566,203	1,535,406
Neighborhood Reinvestment Corporation Grants	<u>1,651,370</u>	<u>1,526,370</u>
	<u>3,217,573</u>	<u>3,061,776</u>
	<u>\$4,651,160</u>	<u>\$4,689,531</u>

Community Development Block Grants are used to make first and second mortgage loans to individuals primarily in the target areas. Grants received and the related interest earned on the related loans are restricted for this purpose.

Permanently restricted Neighborhood Reinvestment Corporation Grants are used for down payment assistance, property acquisition, development, and rehabilitation in target areas. Upon completion of development or rehabilitation, these properties are sold. These grants are restricted for this purpose.

The permanently restricted net assets are invested as follows:

	Community Development Block Grants		Neighborhood Reinvestment Corporation Grants	
	June 30,		June 30,	
	2005	2004	2005	2004
Restricted cash	\$ 825,475	\$ 649,448	\$ 500,038	\$ 650,073
Mortgage loans receivable	713,364	857,262	98,383	68,787
Organization office building	27,364	28,696	-	-
Property held for development, sale or rehabilitation	-	-	1,052,949	807,510
	<u>\$1,566,203</u>	<u>\$1,535,406</u>	<u>\$1,651,370</u>	<u>\$1,526,370</u>

NOTE 12 - CONCENTRATIONS AND CREDIT RISK:

The Organization provides mortgage loans to low-to-moderate income individuals in the Salt Lake City area. Mortgage loans receivable are a concentration of credit risk. Also, the Organization has a significant investment in real property concentrated in a small section of Salt Lake City. As discussed in Note 2, the Organization has cash held in federally insured bank accounts that exceeds the federally insured limit. Management does not believe the credit risk associated with these concentrations is significant.

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

As discussed in Note 4, the Organization has sold revolving mortgage loans to NHSA and continues to service these loans. Under the first sale agreement, the Organization is required to replace or repurchase any loan which becomes more than 90 days delinquent and is required to hold additional mortgage loans and/or cash equal to twenty percent of the outstanding principal amount of these mortgage loans held by NHSA under this agreement. At June 30, 2005 and 2004, the principal balance of the mortgage loans sold to NHSA totaled \$1,273,338 and \$1,895,981. At June 30, 2005 and 2004, none of these mortgage loans were more than 90 days delinquent.

Under the second sale agreement, the Organization is also required to replace or repurchase any loan which becomes more than 90 days delinquent and is required to maintain on deposit with NHSA an amount equal to ten percent of the amount of the outstanding principal amount of mortgage loans held by NHSA under this agreement. At June 30, 2005, the principal balance of the mortgage loans sold to NHSA totaled \$708,407 and NHSA held a deposit of \$70,926 from the Organization. At June 30, 2005, none of these mortgage loans were more than 90 days delinquent.

As discussed in Note 6, the Organization owns a .0067 percent managing member interest in a limited liability company that owns a multi-family low-income housing project (the Project). With this role, the Organization has made the following commitments:

Construction Completion and Development Deficit Guarantee

The managing member shall cause the final completion of construction to occur and shall advance to the Project an amount equal to all development deficits or operating deficits until the lease-up date. Any such advances shall be deemed to be capital contributions. This guarantee expires once the project achieves breakeven operations as defined by the operating agreement. As of June 30, 2005, the Organization has advanced \$150,000 under this guarantee. Subsequent to June 30, 2005, the Organization advanced an additional approximately \$700,000 under this guarantee; \$328,550 under a promissory note (interest at one percent, payable from available cash flow, due September 29, 2035) and approximately \$371,450 as contributed capital. With this subsequent advance, the Organization's obligations under this guarantee ended.

Operating Deficit Guarantee

The managing member guarantees it will make advances up to \$650,000 (the Organization's share of this totals \$435,500) to the Project to fund operating deficits at any time during the period after the lease-up date until the Project has operated at break-even for at least three consecutive calendar years and the Project has a sufficient operating reserve as defined in the operating agreement. The operating deficit loans shall be non-recourse, non-interest bearing and be payable solely from net cash flow. The requirements of the lease-up date were met in October 2005. At June 30, 2005, no amounts had been advanced under this guaranty agreement.

Tax Credit Recapture Guarantee

The managing member guarantees to pay amounts to the investor member if there is a tax credit recapture event. The payment amount shall be equal to any deficiency assessed against the investor member resulting from a tax credit recapture event plus any penalty and interest related to the deficiency and any tax resulting from any payment as a result of this agreement.

Tax Credit Availability Guarantee

The managing member guarantees to pay amounts to the investor member if during the tax credit period the actual credits are less than projected credits.

NOTE 14 - RETIREMENT PLAN:

The Organization sponsors a defined contribution retirement plan (the Plan). Employees can make contributions to the Plan. After three years of service, the Organization also makes matching Plan contributions on behalf of eligible employees. Organization contributions vest immediately to the employee. During the years ended June 30, 2005 and 2004, Organization contributions to the Plan totaled \$11,306 and \$6,417.

NOTE 15 - RELATED PARTY TRANSACTIONS:

Certain members of the Organization's board of directors are employed by lenders who have provided loans to the Organization.

As of June 30, 2005 and 2004, the Organization has made investments in and advances to a related real estate limited liability company totaling \$965,000 and \$815,000 as more fully described in Note 6. The Organization has also entered into a master retail lease agreement with this same related party as more fully described in Note 8. As discussed in Note 18, the Organization made additional investments in and advances to this related real estate limited liability company totaling approximately \$700,000.

NOTE 16 - GRANTS:

The Organization has signed a grant contract for CDBG funds of \$69,600 which is expected to be paid as the Organization incurs allowable construction and development costs as provided in the contract. The Organization has also signed a grant contract for HOME Funds of \$907,752 to be used either to originate loans as the Organization finds qualified borrowers or to develop new housing consistent with the terms of the grant contract.

NOTE 17 - UCDC GRANT:

During the years ending June 30, 1999 and 2000, the Organization made grants totaling \$100,000 to Utah Community Development Corporation (UCDC), a Salt Lake City non-profit organization. UCDC used these grant amounts in a home purchase down-payment assistance program which provided \$2,000 interest free loans or grants to low-income recipients. Amounts disbursed under this program will be considered grants to recipients if the recipients do not sell or transfer title to their homes during the first 15 years of their mortgage. If the recipients sell or transfer title to their homes during the first 15 years of their mortgage, the original amount loaned will be repaid to the Organization. Any amounts repaid will be reflected as revenue in the financial statements. As of and during the year ended June 30, 2004, \$32,000 was recorded as grants receivable and revenue representing amounts owed to the organization from UCDC under this agreement. During the year ended June 30, 2005, an additional \$3,000 was received under this agreement and recorded as revenue. At June 30, 2005, no amounts were recorded as grants receivable under this agreement.

NOTE 18 - SUBSEQUENT EVENTS:

Subsequent to June 30, 2005, the Organization entered into a master retail lease agreement with the Project as more fully described in Note 8. In connection with this agreement, the Organization advanced approximately \$13,000 to the Project during October 2005.

Subsequent to June 30, 2005, the Organization made additional investments in and advances to the related real estate limited liability company as discussed in Note 6 and Note 13 totaling approximately \$700,000. The terms of the Organization's \$50,000 note receivable from the Project (see Note 6) were also modified changing the note maturity date to September 29, 2035.

ADDITIONAL INFORMATION

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
COMBINING STATEMENT OF FINANCIAL POSITION BY ACTIVITY
JUNE 30, 2005

	Operations	Community Development Block Grant	Neighborhood Reinvestment Corporation	Youth Works	Home	Property Development	First Mortgage	Community Development Financial Institutions	Eliminations	TOTAL
ASSETS:										
CASH	\$ 956,703	\$ (452,179)	\$ -	\$ (21,925)	\$ 128,414	\$ 497,801	\$ (1,974,614)	\$ 1,118,111	\$ -	\$ 252,311
RESTRICTED CASH	-	825,475	500,038	-	\$ 193,510	-	254,668	27,280	-	1,800,971
GRANTS RECEIVABLE	24,053	-	-	10,031	-	-	-	-	-	34,084
OTHER RECEIVABLES	493	-	-	-	-	656	-	12	-	1,161
PREPAID EXPENSE	28,907	-	-	(13,284)	-	-	-	-	-	15,623
DEPOSITS	0	-	-	-	-	-	70,926	-	-	70,926
MORTGAGE LOANS RECEIVABLE	(50,364)	930,538	130,998	-	175,148	-	684,470	1,322,720	-	3,193,510
MORTGAGE RESERVE	-	(32,060)	(1,902)	-	(15,732)	-	(121,408)	-	-	(171,102)
PROPERTY HELD FOR DEVELOPMENT	4,069	-	-	43	-	2,384,963	-	418,087	-	2,807,162
INVESTMENT IN AND ADVANCES TO RELATED REAL ESTATE LLC	-	-	150,000	-	-	815,000	-	-	-	965,000
PROPERTY AND EQUIPMENT, NET	258,608	-	-	12,557	-	-	-	-	-	271,165
INTERFUND	(597,670)	955,112	1,309,213	(40,315)	140,447	(2,499,528)	1,656,157	(923,416)	-	-
	<u>\$ 624,799</u>	<u>\$ 2,226,886</u>	<u>\$ 2,088,347</u>	<u>\$ (52,893)</u>	<u>\$ 621,787</u>	<u>\$ 1,198,892</u>	<u>\$ 570,199</u>	<u>\$ 1,962,794</u>	<u>\$ -</u>	<u>\$ 9,240,811</u>
LIABILITIES:										
ACCOUNTS PAYABLE	\$ (4,623)	\$ -	\$ -	\$ 139	\$ -	\$ 5,812	\$ 1,036	\$ -	\$ -	\$ 2,364
ACCRUED EXPENSES	40,268	15,037	-	2,872	147,089	(11,818)	12,451	(1,134)	-	204,765
ACCRUED MASTER LEASE OBLIGATION	-	-	-	-	-	300,000	-	-	-	300,000
ESCROW DEPOSITS	-	1,297	-	-	10,815	-	22,103	7,386	-	41,601
NOTES PAYABLE - PROPERTY DEVELOPMENT	-	500,000	-	-	-	1,207,787	-	-	-	1,707,787
LONG-TERM DEBT - BUILDING MORTGAGE	-	2,099	-	-	419,849	-	998	-	-	422,946
LONG-TERM DEBT - REVOLVING LOANS	-	-	-	-	-	-	560,188	1,350,000	-	1,910,188
	<u>35,645</u>	<u>518,433</u>	<u>-</u>	<u>3,011</u>	<u>577,753</u>	<u>1,501,781</u>	<u>596,776</u>	<u>1,356,252</u>	<u>-</u>	<u>4,589,651</u>
NET ASSETS:										
UNRESTRICTED	561,154	142,250	402,977	(55,904)	44,034	(302,889)	(26,577)	606,542	-	1,371,587
TEMPORARILY RESTRICTED	28,000	-	34,000	-	-	-	-	-	-	62,000
PERMANENTLY RESTRICTED	-	1,566,203	1,651,370	-	-	-	-	-	-	3,217,573
	<u>589,154</u>	<u>1,708,453</u>	<u>2,088,347</u>	<u>(55,904)</u>	<u>44,034</u>	<u>(302,889)</u>	<u>(26,577)</u>	<u>606,542</u>	<u>-</u>	<u>4,651,160</u>
TOTAL NET ASSETS	<u>\$ 624,799</u>	<u>\$ 2,226,886</u>	<u>\$ 2,088,347</u>	<u>\$ (52,893)</u>	<u>\$ 621,787</u>	<u>\$ 1,198,892</u>	<u>\$ 570,199</u>	<u>\$ 1,962,794</u>	<u>\$ -</u>	<u>\$ 9,240,811</u>

See report of Independent Public Accountants.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
COMBINING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS BY ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2005

	Operations	Community Development Block Grant	Neighborhood Reinvestment Corporation	Youth Works	Home	Property Development	First Mortgage	Community Development Financial Institutions	Eliminations	TOTAL
Public support and revenue:										
Contributions:										
Private donors	\$ 8,179	\$ -	\$ -	\$ 2,355	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,534
United Way	-	-	-	995	-	-	-	-	-	995
Foundation	72,100	-	-	21,665	-	-	-	-	-	93,765
Corporate	165,043	-	-	18,000	-	-	-	-	-	183,043
In-kind	-	-	-	-	-	-	-	-	-	-
Special event	34,491	-	-	-	-	-	-	-	-	34,491
Direct cost of benefit to donor	(11,510)	-	-	-	-	-	-	-	-	(11,510)
	<u>268,303</u>	<u>-</u>	<u>-</u>	<u>43,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>311,318</u>
Public grants and contracts:										
Community Development Block Grant	65,200	-	-	-	-	-	-	-	-	65,200
Salt Lake County Substance Abuse	-	-	-	69,013	-	-	-	-	-	69,013
Neighborhood Reinvestment Corporation	-	-	229,844	-	-	-	-	-	-	229,844
Other agencies	10,000	-	-	23,000	-	-	-	-	-	33,000
	<u>75,200</u>	<u>-</u>	<u>229,844</u>	<u>92,013</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>397,057</u>
Program revenue:										
Sale of property held	-	-	-	-	-	333,900	-	-	-	333,900
Development fee	-	-	-	-	-	-	-	-	-	-
Loan service fees	20,169	827	103	-	339	-	10,159	600	-	32,197
Miscellaneous	19,712	-	-	9,211	(270)	-	(570)	-	-	28,083
Interest income	39,147	30,797	3,263	-	41,208	-	121,685	24,726	-	260,826
	<u>79,028</u>	<u>31,624</u>	<u>3,366</u>	<u>9,211</u>	<u>41,277</u>	<u>333,900</u>	<u>131,274</u>	<u>25,326</u>	<u>-</u>	<u>655,006</u>
Total public support and revenue	<u>422,531</u>	<u>31,624</u>	<u>233,210</u>	<u>144,239</u>	<u>41,277</u>	<u>333,900</u>	<u>131,274</u>	<u>25,326</u>	<u>-</u>	<u>1,363,381</u>
Expenses:										
Program services:										
Revolving loan servicing	324,278	(20)	(2,000)	-	1	-	72,811	31,052	-	426,122
Youth Works projects	21,928	-	-	133,386	-	-	-	-	-	155,314
Home and community improvements	32,211	-	-	-	-	535,069	-	-	-	567,280
	<u>378,417</u>	<u>(20)</u>	<u>(2,000)</u>	<u>133,386</u>	<u>1</u>	<u>535,069</u>	<u>72,811</u>	<u>31,052</u>	<u>-</u>	<u>1,148,716</u>
Supporting services:										
Management and general	228,140	-	-	-	-	-	-	-	-	228,140
Fundraising	24,896	-	-	-	-	-	-	-	-	24,896
	<u>253,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,036</u>
Total expenses	<u>631,453</u>	<u>(20)</u>	<u>(2,000)</u>	<u>133,386</u>	<u>1</u>	<u>535,069</u>	<u>72,811</u>	<u>31,052</u>	<u>-</u>	<u>1,401,752</u>
Change in net assets	(208,922)	31,644	235,210	10,853	41,276	(201,169)	58,463	(5,726)	-	(38,371)
Net assets at beginning of year	<u>798,076</u>	<u>1,676,809</u>	<u>1,853,137</u>	<u>(66,757)</u>	<u>2,758</u>	<u>(101,720)</u>	<u>(85,040)</u>	<u>612,268</u>	<u>-</u>	<u>4,689,531</u>
Net assets at end of year	<u>\$ 589,154</u>	<u>\$ 1,708,453</u>	<u>\$ 2,088,347</u>	<u>\$ (55,904)</u>	<u>\$ 44,034</u>	<u>\$ (302,889)</u>	<u>\$ (26,577)</u>	<u>\$ 606,542</u>	<u>\$ -</u>	<u>\$ 4,651,160</u>

See report of Independent Public Accountants.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Number</u>	<u>Federal Loan Balances and Expenditures</u>
<u>United States Department of Housing and Urban Development</u>			
Pass-through Salt Lake City:			
Community Development Block Grant	14.218	-	\$ 65,200
HOME Funds (1)	14.239	-	1,636,489
<u>United States Department of the Treasury</u>			
Community Development Financial Institutions Fund (1)	21.020	#991CD001469	1,322,720
<u>Neighborhood Reinvestment Corporation</u>			
Expendable Grant	99.999	-	104,844
Capital Grant	99.999	-	125,000
Down payment assistance	99.999	-	20,000
			<u>\$3,274,253</u>

Significant Accounting Policies

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting and accordingly reflects all significant payables and other liabilities. A summary of Significant Accounting Policies used in the preparation of the financial statements is on pages 9 through 11.

(1) Major program

► Lake, Hill & Myers

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 20, 2005

To the Board of Directors and Management of
Salt Lake Neighborhood Housing Services, Inc.

We have audited the financial statements of Salt Lake Neighborhood Housing Services, Inc. as of and for the year ended June 30, 2005, and have issued our report thereon dated October 20, 2005. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Salt Lake Neighborhood Housing Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Salt Lake Neighborhood Housing Services, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Salt Lake Neighborhood Housing Services, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness.

This report is intended for the information of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Laker, Hill & Myers

► Lake, Hill & Myers

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 20, 2005

To the Board of Directors and Management of
Salt Lake Neighborhood Housing Services, Inc.

Compliance

We have audited the compliance of Salt Lake Neighborhood Housing Services, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Salt Lake Neighborhood Housing Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Salt Lake Neighborhood Housing Services, Inc.'s management. Our responsibility is to express an opinion on Salt Lake Neighborhood Housing Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Salt Lake Neighborhood Housing Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Salt Lake Neighborhood Housing Services, Inc.'s compliance with those requirements.

As described in items 05-1 and 05-2 in the accompanying schedule of findings and questioned costs, Salt Lake Neighborhood Housing Services, Inc. did not comply with requirements regarding qualifying borrowers that are applicable to its Community Development Financial Institutions program. Compliance with such requirements is necessary, in our opinion, for Salt Lake Neighborhood Housing Services, Inc. to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph Salt Lake Neighborhood Housing Services, Inc. did not comply, in all material respects, with the requirements referred to above that are applicable to the Community Development Financial Institutions program. Also in our opinion, Salt Lake Neighborhood Housing Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its other major program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Salt Lake Neighborhood Housing Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Salt Lake Neighborhood Housing Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lake, Hill & Myers

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Summary of Auditors' Results

- i. The auditor issued an unqualified opinion on the financial statements of the Organization.
- ii. There is one reportable condition in the internal control disclosed as a result of the audit of the financial statements. This reportable condition is not considered to be a material weakness.
- iii. The auditor noted no instances of noncompliance which are material to the financial statements of the Organization.
- iv. There are no reportable conditions in the internal control over major programs disclosed as a result of the audit of the financial statements.
- v. The auditor issued a qualified opinion on compliance with requirements applicable to each major program.
- vi. The auditor identified three findings reported under the caption of Findings.
- vii. Major programs consisted of:

	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>United States Department of Housing and Urban Development</u>		
HOME Funds	14.239	\$1,636,489
Community Development Financial Institutions	21.020	\$1,322,720

- viii. The dollar threshold to distinguish Type A and Type B programs was \$300,000. Programs were selected to meet the percentage coverage rule of OMB Circular A-133 §____.520(f).
- ix. The Organization did not qualify as a low-risk auditee.

(continued)

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

(continued)

Finding

Audit Findings-Financial Statement Audit

<u>Ref</u>	<u>Finding</u>
05-1	<u>Lending Criteria</u>

Criteria

The Organization should ensure that loan program criteria are properly documented and understood before extending loans to borrowers.

Condition

The Organization requested and received approval to change the use of Community Development Financial Institutions (CDFI) loan proceeds from financing rehabilitation loans to financing refinance loans. However, the specific loan qualification criteria is not well defined.

Cause and/or Effect

The Organization may have issued loans to borrowers who are ineligible for the CDFI loan program

Recommendation

The Organization should verify the new terms of the program as soon as possible and make corrections for any loans which might have been issued inappropriately.

Management Response

CDFI funds are restricted to 80% and below AMI per our initial application and funding in 1999. In 2003/2004 NHS negotiated with CDFI to modify use of the funds from 2nd mortgages to a refinance product to assist with the prevention of existing loan customers becoming victims of predatory lending. NHS was unable to loan the funds for 2nd mortgages because the demand in the market was minimal. NHS was paying 2.5% on \$1.3 million on the CDFI loan. NHS received an email from CDFI supporting our request but no formal written statement was ever received and despite our many attempts for a formal written letter, CDFI stated the email was sufficient. As a result, NHS identified NHS loan customers who had a higher interest rate (7% and plus) and were in the process of negotiating with predatory lenders to refinance their existing loans. NHS offered these customers an opportunity to review our loan product at a reduced interest rate.

(continued)

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

(continued)

<u>Ref</u>	<u>Finding</u>
05-2	<p><u>Loans to Ineligible Borrowers</u></p> <p><u>Criteria</u></p> <p>Loans under the CDFI loan program are limited to low-income borrowers.</p> <p><u>Condition</u></p> <p>The Organization lent or refinanced at least three loans using CDFI funds to borrowers who did not meet applicable low-income requirements.</p> <p><u>Cause and/or Effect</u></p> <p>The Organization did not consider the income eligibility of existing borrowers refinanced into the CDFI loan program.</p> <p><u>Recommendation</u></p> <p>The Organization should review all loans made and refinanced into the CDFI loan program during the year and determine the eligibility of borrowers. All ineligible borrowers should be financed using funds without income restrictions.</p> <p><u>Management Response</u></p> <p>In reviewing the files, two of the customers were 80% and below when they initially qualified for loans and one was not. When they refinanced, NHS did a note modification and did not make the families re-qualify. The one customer who did not qualify under CDFI criteria was transitioned from the CDFI loan fund to the NR fund which allows for financing of market rate borrowers.</p>

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

(continued)

<u>Ref</u>	<u>Finding</u>
05-3	<p><u>Loan System</u></p> <p><u>Criteria</u></p> <p>It is the Organization's policy that all loan files contain a completed "loan file checklist" to ensure that all necessary documents are included in loan files.</p> <p><u>Condition</u></p> <p>For new loans issued during the year, no loan file checklists were included.</p> <p><u>Cause and/or Effect</u></p> <p>Certain loan files were missing appropriate loan file documentation, such as appraisals and evidence of loan committee approval.</p> <p><u>Recommendation</u></p> <p>The Organization should ensure that all applicable staff members and those who review loan files are aware of the Organization's lending policies and procedures. The Organization should consider requiring the member of management participating in the loan closings be responsible for ensuring the proper completion of loan files before approving the release of loan proceeds.</p> <p><u>Management Response</u></p> <p>During staff transition there was confusion between a check off list and a loan stacking order form. Several discussions have occurred between loan staff and auditors to clarify expectations specific to the check off list required in each loan file. Auditors reviewed an updated loan file check off list submitted by Homeownership Manager, Janet Fisher and approved the new form. This form is a required document in all loan files. Staff is trained and aware of this document. The loan committee will be trained on the loan check off list document. The loan files will be reviewed quarterly by NHS' Executive Director or loan committee chair person to verify that loan check off list is included in all loan files.</p>

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2004

<u>Ref</u>	<u>Finding</u>
04-1	The Organization had cash balances with four separate banks exceeding the federally insured limit of \$100,000. This finding was resolved.
04-2	The Organization's loan trial balance, which reflects total loans receivable, escrow and suspense amounts, was not reconciled to the general ledger on a regular basis. This finding was resolved.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2005

<u>Ref</u>	<u>Corrective Action</u>
05-1	<p>All staff has been trained and is now knowledgeable that CDBG/HOME/CDFI funds are restricted to 80 percent and below AMI. All other funding sources such as GE, Morgan, NR etc. can be used for up to 115 percent AMI.</p> <p>There are limited CDFI funds available from the \$1.3 to utilize as a refinance product and any future funds that are paid back will continue to be restricted to 80 percent and below.</p>
05-2	<p>NHS will do the following specific to eligibility of the three customers identified by audit findings who violate the 80 percent and below AMI:</p> <ul style="list-style-type: none">• Attempt to secure clarification from CDFI that customers who benefited from our refinance product qualify for the funds because they are living in a target area, versus a target population.• If NHS is unable to secure clarification or approval, NHS will flip these CDFI loans with NR funds or other identified private funds. (one has already been flipped to NR funds)
05-3	<p>During staff transition there was confusion between a check off list and a loan stacking order form. Several discussions have occurred between loan staff and auditors to clarify expectations specific to the check off list required in each loan file. Auditors reviewed an updated loan file check off list submitted by Homeownership Manager, Janet Fisher, and approved the new form. This form is a required document in all loan files. Staff is trained and aware of this document. The loan committee will be trained on the loan check off list document. The loan files will be reviewed quarterly by NHS' Executive Director or loan committee chair person to verify that loan check off list is included in all loan files.</p>